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*The economy of the Israeli-occupied West Bank of the Jordan River has been prospering in the past few years—in sharp contrast to that of Israel proper, which is only slowly emerging from a prolonged recession.*

## West Bank: A Prospering Economy

Fueled by remittances from emigrant workers, real gross national product in the Israeli-occupied West Bank rose at an annual average rate of about 14 percent between 1973 and 1976. Growth last year may have been on the order of 10 percent, boosting per capita GNP to about \$1,000.

This impressive rate of growth, however, has done little to change the basic character of the West Bank economy. It is still dominated by agriculture, constrained by a small market and lack of industrial resources, and provides employment for only 140,000 persons. The balance of the workers hold jobs in Israel, Jordan, and

other Arab countries. Israel provides little financial support to the West Bank aside from job opportunities and technical assistance in agriculture.

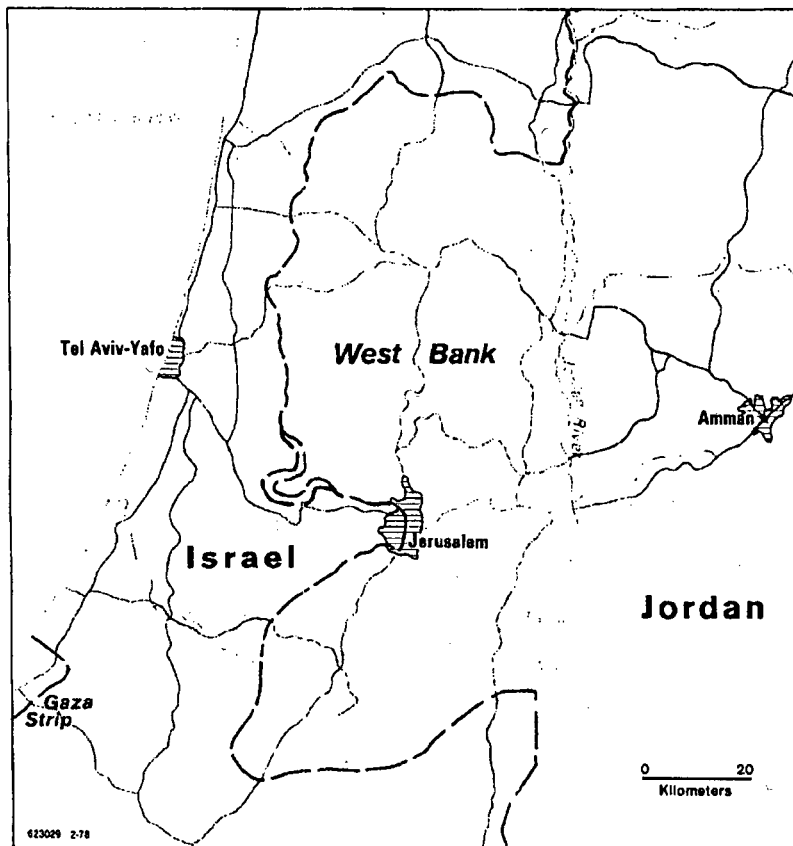
### Worker Remittances

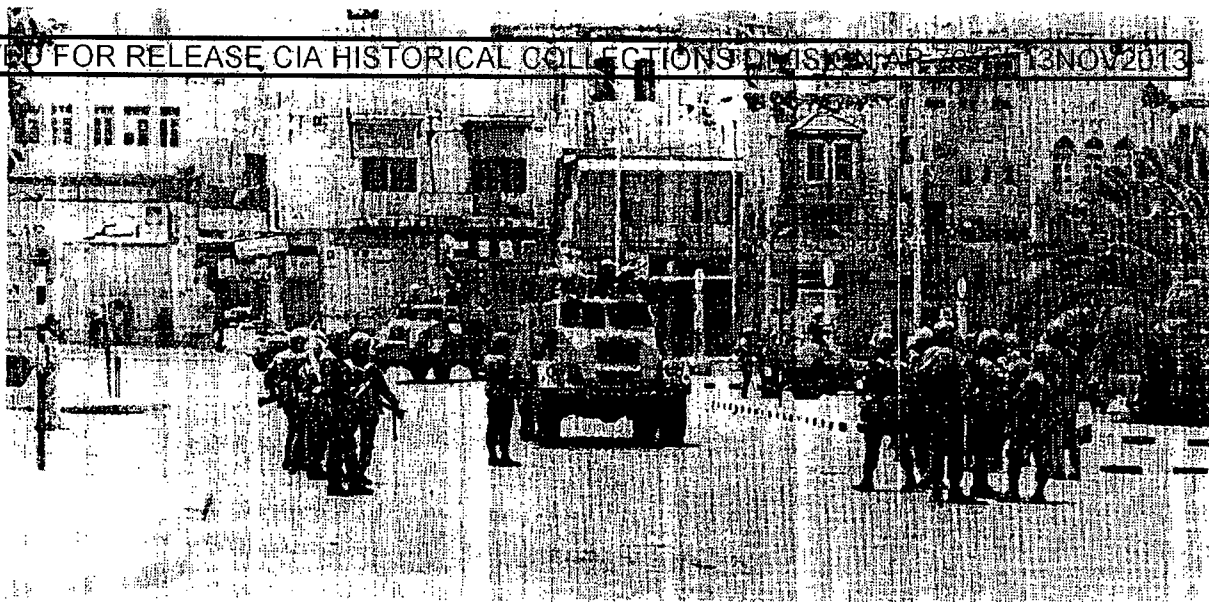
Remittances from West Bank workers in Arab countries have increased an estimated tenfold since 1973 to a level of about \$250 million in 1977, thanks both to increased migration and sharply higher levels of pay. Earnings from these workers have more than offset the decline in receipts from workers in Israel. The Israeli recession of 1974-1976 sent at least 10,000 West Bank migrant laborers back home or on to other Arab countries.

The boom in remittances has made the West Bank a substantial net earner of foreign exchange. Because of the lack of domestic banking facilities, a large part of these earnings is held outside, primarily in Jordan. Arab banks in the West Bank have been closed since 1967, and most day-to-day financial transactions are handled by a network of money changers. There are several branches of Israeli banks in the territory, but these do business mainly for Israelis.

Only rough estimates are available on the balance of payments. Almost all transactions are in cash. Israeli merchants, moreover, generally understate sales to the West Bank to avoid taxes. The spotty data available indicate that the West Bank current account was roughly in balance in 1973, was about \$125 million in the black in 1976, and improved further in 1977.

The inflow of remittances has spurred some domestic activity. It has triggered a sharp rise in construction activity, primarily in private housing. West Bank housing

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*Israeli troops keep the peace in occupied territory*

starts have risen by 70 percent since 1973 and the number of buildings completed has more than doubled. Other forms of private consumption—including luxuries such as refrigerators and television sets—have also soared.

The cost of living is rising, but not primarily because of the boom in construction and consumption. Almost all consumer goods and building materials are imported from Israel, and the West Bank inflation rate—28 percent in 1976—is heavily affected by the rate of inflation in Israel.

#### **Agriculture and Industry**

Agricultural output has expanded 50 to 60 percent since 1973. Production of vegetables and citrus fruits over the past decade has expanded 150 percent, reflecting a combination of increased West Bank investment in agriculture and Israeli technical assistance. The West Bank is now self-sufficient in agricultural produce except for foodgrains.

Despite favorable price and output trends, farmers have been caught in a profit squeeze in the past few years. Israeli taxes and fuel prices pushed up costs of fuel, packaging, fertilizer, and machinery to nearly 20 percent of the value of output, double the level in the 1973-1974 crop year. The squeeze, however, has not yet made new investments unprofitable.

The small West Bank industrial sector—consisting mainly of handicrafts,

food processing, soap, matches, and plastic products—has languished since 1973. Industrial output and investment are suffering from increases in labor costs and from Israeli economic policies, including high production taxes and duties on raw materials, as well as bureaucratic roadblocks designed to impede West Bank competition with Israeli products.

The market for most West Bank industrial firms is largely confined to the occupied territories. Only firms established before 1967 and licensed by the Jordanian Government have an outlet to the Arab world. Industrial exports, except for processed agricultural goods, are very small in any case. These limitations, together with political uncertainty, have frozen new investment. No major industrial firms, and very few small ones, have been set up in the last few years.

#### **The Role of Jerusalem**

Before 1967, Jerusalem was the commercial hub of the West Bank and also its main source of tourist earnings and government services. The city was virtually indispensable as a trading and marketing outlet for the West Bank.

Although Jerusalem remains a major source of employment, its role as a market for West Bank products has been trimmed by Israeli economic controls. Since the opening of the Israeli border in 1967, moreover, the role of Jerusalem as a funnel for northern West Bank trade has diminished.

#### **Outlook**

The economy of the West Bank is likely to taper off to a 5- to 8-percent growth rate for the next several years as the boom in remittances and construction slacks off and GNP again becomes more heavily influenced by agricultural developments. The basic constraints to West Bank economic performance will remain. Opportunities for nonagricultural investment are extremely limited, and even agriculture is becoming less attractive. Finally, and perhaps most important, emigration to other Arab countries is draining the area of its skilled workers.

For now, West Bankers can look forward to continued gains in their standard of living. Most economic growth will be in retail trade, services, and other consumer-related activities. Investment and development projects—public and private—will remain minimal.

A settlement of the political status of the West Bank could bring a renewed spurt in economic activity. West Bankers, who now hold large funds outside the area, could be expected to invest heavily in local industry. If these funds were backed up by foreign assistance in improving infrastructure and by the return of skilled manpower, the West Bank could be put on a fairly steady and sustainable growth path. The minimum requirement for economic progress is a continued secure link to port facilities and to Arab markets.

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